



## AFFORDABLE CARE ACT: KEY SMALL BUSINESS PROVISIONS

The Affordable Care Act (ACA) will help small businesses by lowering premium cost growth and increasing access to quality, affordable health insurance. If you're a small employer, the following are some of the ACA provisions that may apply.

### **Provisions Currently in Effect**

#### **Small Business Tax Credit**

The Small Business Tax Credit helps small businesses afford the cost of health care coverage for their employees and is specifically targeted for those businesses with low- and moderate-income workers. Businesses that have fewer than 25 full-time equivalent employees, pay average annual wages below \$50,000, and contribute a uniform 50% or more toward employees' self-only health insurance premiums may qualify for the [small business tax credit](#). As of 2014, this credit is available to qualified small businesses that participate in the [Small Business Health Options Program \(SHOP\)](#), described below, and may be worth up to 50% of the employer's premium costs (35% for tax-exempt employers). Use this [Tax Estimator tool](#) to help determine if you qualify and what the credit may look like for your business.

#### **Individual Health Insurance Marketplace and Small Business Health Options Program (SHOP)**

Both self-employed individuals and small employers now have a new way to obtain coverage through the competitive health insurance Marketplace - sometimes called the Exchange. The [Marketplace](#) offers four levels of benefit packages that differ by the percentage of costs the health plan covers. The self-employed and other individuals may qualify for individual tax credits and subsidies on a sliding scale, based on income, when they purchase coverage through the Marketplace. **2014 enrollment in the individual Marketplace is now closed.** You can still get 2014 coverage in special cases, including marriage, birth, or adoption, or loss of coverage. Visit [Healthcare.gov](#) to learn more or call the Marketplace Call Center at 1-800-318-2596 (TTY: 1-855-889-4325), 24 hours a day, 7 days a week.

Small employers looking to provide coverage can do so through the [Small Business Health Options Program \(SHOP\)](#). SHOP is part of the new Marketplace available in each state and is open to those employers with 50 or fewer full-time equivalent (FTE) employees. SHOP offers small businesses increased purchasing power to obtain a better choice of high-quality coverage at a lower cost. SHOP also pools risk for small groups and reduces administrative complexity, thereby reducing costs. In addition, if you offer your employees coverage through the SHOP and meet other eligibility requirements, you may be able to claim the Small Business Tax Credit worth up to 50%. Enrollment in SHOP is offered anytime during the year. For more information, visit [Healthcare.gov](#) or call the SHOP Call Center at 1-800-706-7893 (TTY users: 1-800-706-7915), Monday through Friday, 9 a.m. to 7 p.m. EST. You can also use the [SHOP FTE Calculator](#) to determine if you meet the size requirements for SHOP.

#### **Employer Notification of the New Health Insurance Marketplace**

All employers covered by the Fair Labor Standards Act (generally, those firms that have at least one employee and at least \$500,000 in annual dollar volume of business), must provide notification to their employees about the new Health Insurance Marketplace. This notice must have been given to all current employees by October 1<sup>st</sup> 2013, and to each new employee beginning after October 1, 2013, regardless of plan enrollment status (if applicable) or of part-time or full-time status. The Department of Labor has provided two sample notices employers may use to comply with this rule, one for employers who [do not offer](#) a health plan and another for employers who [offer a health plan](#) for some or all employees. Refer to DOL's [Technical Guidance](#) for more information.

## Summary of Benefits and Coverage (SBCs) Disclosure Rules

Employers are required by the ACA to provide employees with a standard [Summary of Benefits and Coverage](#) form explaining what their plan covers and what it costs. The purpose of the SBC form is to help employees better understand and evaluate their health insurance options. Penalties may be imposed for non-compliance. The Department of Labor has provided a [sample completed SBC](#) that employers may reference.

## Medical Loss Ratio Rebates

Under ACA, insurance companies must spend at least 80% of premium dollars on medical care rather than administrative costs. Insurers who do not meet this ratio are required to provide rebates to their policyholders, which is typically an employer who provides a group health plan. Employers who receive these [premium rebates](#) must determine whether the rebates constitute plan assets. If treated as a plan asset, employers have discretion to determine a reasonable and fair allocation of the rebate. For more information on the federal tax treatment of Medical Loss Ratio rebates, refer to [IRS's FAQs](#).

## W-2 Reporting of Aggregate Health Care Costs

As of January 2013, most employers must report the aggregate annual cost of employer-provided coverage for each employee on the Form W-2. The W-2 reporting requirement is informational only and it does not require taxation on any health plan coverage. Reporting is required for most employer-sponsored health coverage, including group medical coverage. **Small Employer Exception:** Until further guidance is issued, the W-2 reporting requirement does not apply to employers required to file fewer than 250 Form W-2s in the prior calendar year. To learn more about the requirements, as well as exclusions, visit [irs.gov/aca](http://irs.gov/aca).

## Limits on Flexible Spending Account Contributions

As of January 2013, the maximum amount an employee may elect to contribute to health care flexible spending arrangements (health FSAs) for any year will be capped at \$2500, subject to cost-of-living adjustments. Note that the limit only applies to elective employee contributions and does not extend to employer contributions. To learn more about FSA Contributions, as well as what is excluded from the cap, visit [IRS.gov](http://irs.gov).

## Additional Medicare Withholding on Wages

As of January 2013, ACA increased the employee portion of the Medicare Part A Hospital Insurance (HI) withholdings by .9% (from 1.45% to 2.35%) on employees with incomes of over \$200,000 for single filers and \$250,000 for married joint filers. It is the employer's obligation to withhold this additional tax, which applies only to wages in excess of these thresholds. The employer portion of the tax will remain unchanged at 1.45%.

## Medicare Assessment on Net Investment Income

As of January 2013, a 3.8% tax will be assessed on [net investment income](#) such as taxable capital gains, dividends, rents, royalties, and interest for taxpayers with Modified Adjusted Gross Income (MAGI) over \$200,000 for single filers and \$250,000 for married joint filers. Common types of income that are not investment income are wages, unemployment compensation, operating income from a non-passive business, Social Security Benefits, alimony, tax-exempt interest, and self-employment income.

## 90-Day Maximum Waiting Period

Beginning January 1, 2014, individuals who are eligible for health coverage will not have to wait more than 90 days to begin coverage. HHS, IRS, and the Department of Labor have issued [final rules](#) on how employers should apply the 90-day rule.

## Workplace Wellness Programs

The ACA creates new incentives to promote employer wellness programs and encourage employers to take more opportunities to support healthier workplaces. Health-contingent wellness programs generally require individuals to meet a specific standard related to their health to obtain a reward, such as programs that provide a reward to employees who don't use, or decrease their use of, tobacco, and programs that reward employees who achieve a specified level or lower cholesterol. Under final rules that took effect on January 1, 2014, the maximum reward to employers using a health-contingent wellness program increased from 20 percent to 30 percent of the cost of

health coverage. Additionally, the maximum reward for programs designed to prevent or reduce tobacco use is as much as 50 percent. The final rules also allow for flexibility in the types of wellness programs employers can offer. For more information and to view the final rules, visit [DOL.gov](http://DOL.gov).

## **Upcoming Provisions**

### **Employer Shared Responsibility Provisions**

Starting in 2015, employers with 100 or more full-time (or full-time equivalent) employees that do not offer health insurance to their full-time employees (and dependents), or that offer coverage that is not affordable or that does not provide minimum value, may be required to pay an assessment if at least one of their full-time employees receives a premium tax credit to purchase coverage in the new individual Marketplace. Employers with at least 50 but fewer than 100 full-time or full-time equivalent employees will generally have an additional year, until 2016, before these rules apply. A full-time employee is one who is employed an average of at least 30 hours per week. If a business meets the threshold level of 100 full-time or full-time equivalent employees (50 employees starting in 2016), or is close to it, it's important to understand how these rules may apply and how the payment amounts could be calculated. Refer to these [FAQs](#) from the IRS for the latest information on the Employer Shared Responsibility rules.

Businesses with fewer than 50 employees are generally not affected by the Employer Shared Responsibility rules – that is nearly 96 percent of all firms in the United States. These smaller employers do not have to pay an assessment if their full-time employees receive premium tax credits in the new Marketplace.

### **New Health Insurance Coverage Reporting Requirements**

Beginning in 2015, the ACA requires that employers with 50 or more full-time or full-time equivalent employees submit informational reports to the IRS regarding the health coverage they offer to their full-time employees (known as Section 6056 rules). New information reporting by issuers, self-insuring employers, and other parties that provide health coverage also take effect in 2015 (known as Section 6055 rules). The first of these reports must be filed in 2016. In July 2014, the IRS issued an early release of draft forms under the [6056](#) and [6055](#) rules for informational purposes only. The IRS is expected to release instructions and further guidance in the near future.

## **ADDITIONAL RESOURCES**

The U.S. Small Business Administration's health care web page, [www.sba.gov/healthcare](http://www.sba.gov/healthcare), is dedicated to educating small business owners about the Affordable Care Act.

Small business owners can also take advantage of a streamlined health care tool, housed at [Business USA](#), to help you find out exactly what you and your employees need to know about the Affordable Care Act. In a few quick steps, you'll understand the essentials of new insurance options and other health care changes.

[Healthcare.gov](#), a web portal maintained by HHS, is the site of the individual and small employer Health Insurance Marketplace. The [small business](#) tab includes information about the SHOP Marketplace for small employers, coverage options, and more.

For more information about all tax-related provisions under the ACA, visit [www.irs.gov/aca](http://www.irs.gov/aca).